

What Drives Consumer Participation to Loyalty Programs? A Conjoint Analytical Approach

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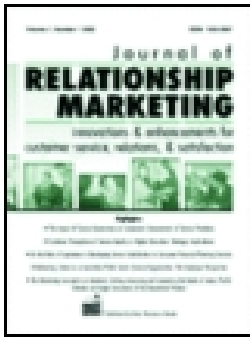
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ABSTRACT. Little is known about the way in which different loyalty program attributes underlie consumers' intentions to participate in such a program. Based upon equity theory, the current study distinguished between consumer inputs (personal data release, participation cost, purchase frequency, participation exclusivity, and participation efforts) and outputs (program benefits, number of program providers, and program duration) as underlying attributes potentially affecting participation in a loyalty program. Using conjoint analysis, we explored how different levels within each of these eight attributes affect consumers' intentions to participate. The study holds major implications for the design of successful customer loyalty programs. [Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <<http://www.HaworthPress.com>> © 2003 by The Haworth Press, Inc. All rights reserved.]

KEYWORDS. Relationship marketing, customer loyalty program, equity theory, conjoint analysis

INTRODUCTION

Due to increased competition and price pressures, understanding how to establish and maintain buyer-seller relationships is becoming increasingly paramount for marketers (Peltier, Schibrowsky, & Davis, 1998). More specifically, achieving an effective relationship in a consumer context is considered to be even more challenging than it is in a business-to-business context, given the generally more polygamous character of consumers as opposed to business customers (Keng & Ehrenberger, 1984; Pressey & Matthews, 1997).

In general, the literature distinguishes between three levels of relationship marketing (Berry, 1995). A first level relies on pricing incentives to secure customer loyalty and is often referred to as "level one relationship marketing." A second level of relationship marketing focuses at the social aspects of a relationship exemplified by regularly communicating with consumers or referring to their name during an encounter. These socially inspired tactics are usually bundled into what is called "level two relationship marketing." "Level three relationship marketing" pertains to offering structural solutions to customer problems, as argued by Berry (1995, p. 241): "At level three, the solution to the customer's problem is designed into the service-delivery system

rather than depending upon the relationship-building skills . . . ” Level three relationship marketing goes beyond what is commonly described as a loyalty program (Berry, 1995). Loyalty programs are usually based upon level one and/or level two relationship marketing, and were defined by Sharp and Sharp (1998) as “. . . efforts on behalf of the company rewarding customers for their loyal behaviour.”

Today, the use of loyalty programs as a technique for companies to enhance customer loyalty is extremely popular as it is believed that both consumers and companies can reap benefits from it (Luxton, 1998; Uncles, 1994). Gas stations, hotels, airlines, department stores, drug stores, mutual fund companies, coffee shops, and even liquor stores launch loyalty programs in order to keep customers coming back, to collect information, or simply because the competition does (Barnes, 2001). From a consumer's perspective, Howard-Brown (1998) found that 31% of consumers stated that loyalty and store cards exerted an influence on them. A recent McKinsey study revealed that 53% of grocery customers and 21% of customers of casual apparel retailers are enrolled in loyalty programs, of which 48% claimed to spend more than they would otherwise. From a company's perspective, the same study indicated that about half of the ten largest US retailers in seven industries have launched loyalty programs (Cigliano et al., 2000). Many companies are heavily investing in the development and implementation of appropriate customer loyalty programs. Typically, a million-member loyalty program incurs administrative costs of about \$2 to \$2.50 per member and communications costs of approximately \$1.75 to \$6, excluding the cost of rewards. Rewards usually make up the bulk of a program's expenses—anywhere from 2 to 10 percent of member spending—depending on the industry and other competitive factors (Barlow, 1999). Some supermarket chains even devote a yearly budget of more than \$150 million to customer loyalty rewards (Cigliano et al., 2000).

Previous research has been devoted to acquire insights into various aspects of loyalty programs. For example, studies have examined the effects of loyalty programs on consumer behavior (Conneran & Lawlor, 1997; Schijns & Schröder, 1996; Sharp & Sharp, 1997), the effects of consumer characteristics on loyal behavior (Garbarino & Johnson, 1999; McDonald, 1993), the effects of loyalty efforts on the profitability of companies (Luxton, 1998), and the critical success factors of loyalty programs (Dowling & Uncles, 1997; Oliver, 1999; Peelen, Ekelmans, & Vijn, 1989). However, it is unknown which loyalty program attributes are crucial in the mind of the consumer and how these attributes influence consumers' intentions to participate in loyalty pro-

grams (Berry, 1995). Yet, as the design of a loyalty program is considered to affect its inherent potential, it is important to understand the most salient preferences of consumers to participate (Peltier, Schibrowsky, & Davis, 1998; Sharp, 1998). While mere consumer participation in a loyalty program is no guarantee for consumers to become active program users and to show a stronger commitment to the program's provider (Cigliano et al., 2000; Shaver, 2000), getting a significant number of consumers to enroll is a necessary first step in realizing customer loyalty and ensuring the program's cost effectiveness.

In response to the above-mentioned gaps in marketing literature, this study has a twofold objective. First, we intend to make an inventory of relevant attributes of loyalty programs together with levels within each attribute. Second, we empirically assess the impact of each level within a loyalty program attribute on the intention to participate in a customer loyalty program.

THEORETICAL BACKGROUND AND HYPOTHESES

In order to understand what drives consumer participation to loyalty programs, we build upon equity theory as a theoretical framework. Equity theory postulates that parties in exchange relationships compare their ratios of exchange inputs to outcomes (Adams, 1965; Huppertz, Arenson, & Evans, 1978). Inequity is said to exist when the perceived inputs and/or outcomes in an exchange relationship are psychologically inconsistent with the perceived inputs and/or outcomes of the referent (Huppertz, Arenson, & Evans, 1978). Perceived inequities lead exchange parties to feel under- or over-rewarded, angry, or resentful, to affect behaviors in subsequent periods by encouraging these parties to change their inputs into the relationship, and to result in suspicion and mistrust of the exchange partner (Ganesan, 1994; Gruen, 1995). If equity prevails, the ratio of one's outcomes to inputs is assumed to be constant across exchange partners, which results in the satisfaction of exchange partners with their outcomes (Adams, 1965; Ganesan, 1994; Lewin & Johnston, 1997; Oliver & Swan, 1989). Equitable outcomes stimulate confidence that parties do not take advantage of each other and that they are concerned about each other's welfare (Ganesan, 1994).

We see the surface of equity theory in a consumer's decision process surrounding his/her participation in a loyalty program. In any loyalty program, both the program's participant and provider will have to give

up something, the cost of which is expected to be outweighed by the advantages. The participant decides to forgo some freedom of choice in provider selection or even pays some form of entry fee in exchange for the benefits available from a loyalty program. The provider, correspondingly, accepts to offer customer benefits in order to add extra value for the participant because he expects the net present value of the resultant long-term relationship to be positive.

Drawing upon established literature on loyalty strategies and implementation, we identified eight attributes that can be classified as either a consumer's "input" or "outcome" potentially impacting his/her willingness to participate in a loyalty program. As consumer inputs, we distinguished: (1) personal data release, (2) participation cost, (3) purchase frequency, (4) participation exclusivity, and (5) participation efforts. As consumer outcomes, we investigated: (1) program benefits, (2) number of program providers, and (3) program duration. Below, we discuss each of these attributes, distinguish between relevant levels within each attribute, and formulate our research hypotheses.

Consumer Inputs

Personal data release. We define this attribute as "personal data consumers are asked to provide about themselves at the time of joining the loyalty program." The information consumers are asked for at the time of joining a program has proved to play an important role in affecting intentions to participate (Mossel & Wijnia, 1999). Because consumers are becoming more privacy and security savvy, they are increasingly reluctant to share personal data and only share when they see a clear benefit (Nowak & Phelps, 1995; Spinello, 1998; Wang & Petrisson, 1993). Previous studies focused on the amount of information collected from loyalty program participants (Luxton, 1998; Peltier, Schibrowsky, & Davis, 1998; Uncles, 1994). In line with this, we distinguish between two levels of "personal data release": basic name and address information versus extended information. As self-interested consumers are expected to minimize their inputs, we hypothesize that:

- H₁: Consumers are more likely to participate in a loyalty program when they are asked for basic name and address information as opposed to extended information.

Participation cost. We define participation cost as "a certain amount of money that has to be paid in order to be able to participate in the loy-

alty program.” Participation cost is considered to be an important determinant of participation intentions to loyalty programs (Mossel & Wijnia, 1999). We distinguish between two levels of participation cost based upon whether or not a fee has to be paid. As limited inputs on behalf of the consumer are generally more motivating to consumers (Soman, 1998), we hypothesize that:

- H₂: Consumers are more likely to participate in a loyalty program when there is no participation cost as opposed to when there is a participation cost.

Purchase frequency. We define this attribute as “the number of purchases a consumer made at the company offering the loyalty program within a specified period of time.” We expect purchase frequency to play a significant role in consumers’ participation intentions as consumers who purchase frequently from the company can generally reap more benefits from their participation in the program. We distinguish between two levels of purchase frequency, high versus low. We hypothesize that:

- H₃: Consumers are more likely to participate in a loyalty program when they reveal a high purchase frequency as opposed to when they reveal a low purchase frequency.

Participation exclusivity. We define this attribute as “the extent to which participation to the loyalty program is restricted to a specific group of consumers.” Sheth and Parvatiyar (1995, p. 264) recognized that “implicit in the idea of relationship marketing is consumer focus and consumer selectivity—that is, all consumers do not need to be served in the same way.” O’Brien and Jones (1995) have criticized companies for inadvertently treating all customers as equal; by not differentiating, companies waste resources in over-satisfying less profitable customers, while under-satisfying more valuable, loyal customers. Also, Peterson (1995) argued that such distinctive treatment enables a seller to address a person’s basic human need to feel important. Finally, Gwinner, Gremler, and Bitner (1998) showed that consumers perceive differentiation between customers as a benefit resulting from consumers’ relationships with sellers. Distinguishing between two levels of participation exclu-

sivity (non-exclusive versus exclusive) and given the positive evaluation of differentiation, we hypothesize that:

- H₄: Consumers are more likely to participate in a loyalty program when participation to the loyalty program is exclusive to a specific group of consumers as opposed to when it is non-exclusive.

Participation efforts. We define participation efforts as “the activities a consumer is expected to undertake during his participation in the loyalty program in order to get the promised benefits.” All loyalty programs involve some minimal effort by customers, be it at least carrying with them and presenting a loyalty card to the cashier at the time of purchase. Previous research has shown that the effort asked for on behalf of the consumer reduces the perceived value of benefits promised in return of this effort (Soman, 1998). This was also illustrated by Sharp (1998), who showed that among the 50% consumers who perceived loyalty cards to be inconvenient, the most common problem was the burden related to carrying cards with them. As a result, in order to carry customers over the bar, it appears that simplicity of the required efforts is crucial (Cigliano et al., 2000). We distinguish between two levels of participation efforts: minimal efforts versus extended efforts. Examples of extended efforts are saving stamps, redemption hassles, administration and paperwork, and so on. In line with equity theory, we hypothesize that:

- H₅: Consumers are more likely to participate in a loyalty program when they are asked to make minimal efforts as opposed to when they are asked to make extended efforts.

Consumer Outcomes

Program benefits. We define program benefits as “what consumers get in return for their participation in the loyalty program.” In many loyalty programs, benefits serve as the most compelling reason for customers to participate in a program. Consumers can be exposed to hard as well as soft benefits (Barlow, 1992; Harris, 2000). Hard benefits, defined as “tangible benefits such as pricing or gift incentives,” can either be given immediately or delayed. Different authors have indicated that delaying rewards restricts consumers’ perceived value of these rewards

(Cigliano et al., 2000; Dowling & Uncles, 1997; Soman, 1998). Moreover, consumers can be exposed to different kinds of soft benefits such as providing product information or additional information (Howard-Brown, 1998; Peelen, Ekelmans, & Vijn, 1989; Uncles, 1994). Several authors indicate that successful loyalty programs require an appropriate blend of compelling hard and soft benefits (Harris, 2000). In line with equity theory, we indeed intend to show that consumers want to maximize the return they get by receiving both types of benefits immediately. Therefore, we hypothesize that:

- H₆: Consumers are more likely to participate in a loyalty program when they receive immediate hard benefits in combination with soft benefits (product and additional information) in exchange for their participation as opposed to when they receive other combinations of program benefits.

Number of program providers. We define number of program providers as “the quantity of vendors supporting a single customer loyalty program.” In case consumers join a loyalty program that is supported by numerous vendors, it allows them to earn benefits that would be economically out of reach within the context of a single-vendor program (Cigliano et al., 2000; Uncles, 1994). According to Sharp and Sharp (1998), the level of participation in such programs is very high. In this study, we distinguished between single-vendor versus multi-vendor programs. Based upon actual participation levels in both single-vendor and multi-vendor programs (Conneran & Lawlor, 1997; Sharp & Sharp, 1998), we hypothesize that:

- H₇: Consumers are more likely to participate in a loyalty program when it concerns a multi-vendor program as opposed to a single-vendor program.

Program duration. We define program duration as “the period of time during which the program benefits are available to the consumer.” As most loyalty programs become “entrenched” in the minds of consumers and as they seem to take on a life of their own once they start, we can expect consumers to react negatively when the program is “taken away” from them, even if they are not actively involved in it (Cigliano et al., 2000). As a result, making a distinction between unlimited and limited duration, we hypothesize that:

- H₈: Consumers are more likely to participate in a loyalty program when it is unlimited in duration as opposed to when it is limited in duration.

METHOD

An initial sample of 2,000 Belgian consumers was drawn from Belgium's largest commercial consumer database containing more than 95% of Belgian households. This sample was representative for the Belgian population in terms of gender, age, and region. All 2,000 consumers were contacted by telephone and asked to fill in a questionnaire they would receive later by mail; 479 accepted to complete the questionnaire (response rate of 24%). After a follow-up by telephone directed at respondents who did not return the questionnaire, 243 useful questionnaires were finally returned, resulting in a final response rate of 12.2% (34% male versus 66% female; 7.8% under 25 years old, 51.2% between 25 and 45 years old, 40.9% more than 45 years old).

The eight attributes as described above with their different levels were combined in a fractional factorial design, resulting in 16 descriptions of loyalty programs. In the questionnaire, respondents were asked to evaluate each of these descriptions on a five-point Likert scale, indicating how likely they were to join the described program. No significant differences were found between early and late respondents in terms of the mean evaluation scores for each of these descriptions, limiting the risks of non-response bias. The questionnaire was pre-tested on comprehension and readability among six different consumers spread across age and gender. Small adaptations to the initial questionnaire were made. Conjoint analysis was used in order to derive information on the utilities of each level within each attribute. The validity of our hypotheses was investigated by comparing the utilities between levels based upon paired sample t-tests.

RESULTS

Conjoint analysis was carried out using a part-worth functional model. Data were collected using a full-profile approach. A fractional factorial design using Addelman's basic plans (Addelman, 1962) for designing an orthogonal main effects plan was chosen. Interactions were not significant. This resulted in 16 combinations that

were presented to the respondents. These combinations were evaluated on a five-point Likert scale. Part-worth utilities were estimated using ordinary least squares (OLS) regression (Green et al., 1998; Green & Srinivasan, 1978; 1990). The utility range was used as a measure of importance for the attributes of loyalty programs included in the conjoint analysis. The utility range is calculated by subtracting the part-worth utilities of the least preferred level of each attribute from the part-worth utilities of the most preferred level of each attribute. Relative importance (on the basis of inter-attribute trade-offs) is expressed in percent of total range.

As can be observed from Table 1, consumers feel that participation costs and program benefits are the most important attributes determining participation in a customer loyalty program.

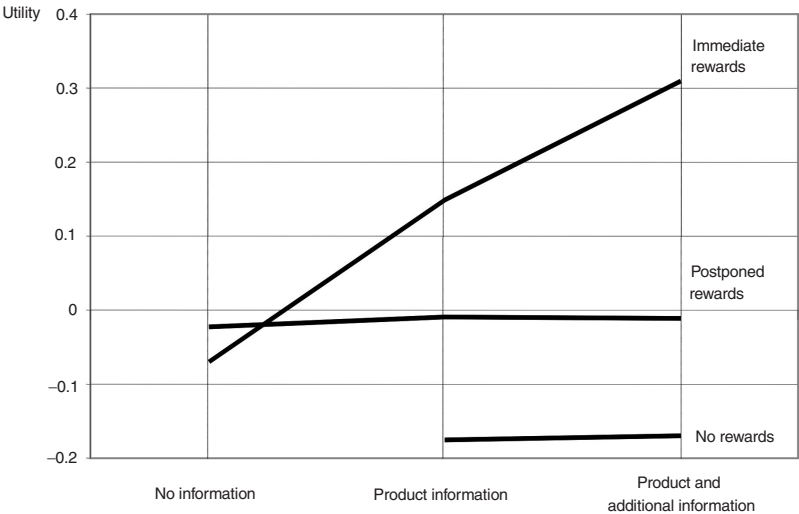
To assess consumer preferences for particular levels within the attributes, we conducted paired sample t-tests. The fourth column in Table 1 shows that consumers perceive statistically significant differences between the levels of all attributes distinguished, except for the attribute "number of program providers" and some differences between levels within the "program benefits" attribute. The results indicate that all the hypotheses (H_1 - H_5) concerning consumer inputs can be supported. Summarizing, it can be stated that consumers are more likely to participate in a loyalty program when they reveal a high purchase frequency and when participation to the loyalty program is exclusive to a specific group of consumers. In addition, they want to have minimal trouble: provide only basic name and address information, pay no participation costs, and make minimal efforts. Concerning program outputs, H_6 can be supported: Consumers significantly prefer to receive immediate hard benefits combined with product and additional information above other combinations of program benefits. Figure 1 indicates that soft benefits (information) only contribute to a program's perceived utility in case they are provided in combination with immediate hard benefits (rewards). Moreover, additional information does not lead to a significant increase in utility compared to product information only, unless provided in combination with immediate rewards. Finally, the results show that soft benefits alone generate the lowest utilities. By adding postponed rewards, these utilities can be further improved and this is even more the case when adding immediate rewards. Also H_8 could be supported as consumers more strongly intend to participate in a loyalty program if it is unlimited in duration. Only H_7 could not be supported at a 95% reliability level, apparently implying that consumers do not care about the number of program providers as a factor underlying participation.

TABLE 1. Attribute Importance and Utility Scores of Levels

Attributes	Attribute importance (%)	Levels	Utility score	T-value (2-tailed sign.)
<i>Consumer inputs</i>				
H ₁ : Personal data release	5.95	(1) Basic name and address information (2) Extended information	.0618 -.0618	4.07**
H ₂ : Participation cost	46.45	(1) Participation cost (2) No participation cost	-.4831 .4831	18.70**
H ₃ : Purchase frequency	7.22	(1) Low purchase frequency (2) High purchase frequency	-.0751 .0751	5.13**
H ₄ : Participation exclusivity	3.28	(1) Non-exclusive (2) Exclusive	-.0341 .0341	3.09**
H ₅ : Participation efforts	6.96	(1) Minimal efforts (2) Extended efforts	.0724 -.0724	5.09**
<i>Consumer outcomes</i>				
H ₆ : Program benefits	23.28	(1) Only product information (2) Product information + additional information (3) Only immediate rewards (4) Immediate rewards + product information (5) Immediate rewards + product information + additional information (6) Only postponed rewards (7) Postponed rewards + product information (8) Postponed rewards + product information + additional information	-.1756 -.1703 -.0698 .1498 .3085 -.0222 -.0089 -.0116	All pairs significant at a .01 level, except for: (1)-(2): .12 (1)-(3): 1.96 (2)-(3): 1.95 (3)-(6): 1.18 (3)-(7): 1.27 (3)-(8): 1.10 (6)-(7): .26 (6)-(8): .20 (7)-(8): .07
H ₇ : Number of program providers	2.51	(1) Single-vendor (2) Multi-vendor	-.0261 .0261	1.93
H ₈ : Program duration	4.36	(1) Limited duration (2) Unlimited duration	-.0453 .0453	3.67**
100				

(**) $p < .01$

FIGURE 1. Utility Scores Resulting from Program Benefits



CONCLUSIONS AND MANAGERIAL IMPLICATIONS

A first implication resulting from our study is that consumers apparently behave rather opportunistically and self-interested when deciding to participate in a customer loyalty program. This can be concluded from the fact that they want to minimize their inputs, while maximizing the outcomes expected. Program designers should be well aware of this result, as in order to maintain a constant utility level, an increased level of outcomes should compensate increased inputs on behalf of consumers participating in a program. This suggestion is in line with equity theory postulating that parties in exchange relationships compare their ratios of exchange inputs to outcomes. The results of the conjoint analysis provide practical guidelines for program designers as it allows them to calculate the total utility of a particular program combination they have in mind and to carry out what-if analyses following the trade-offs between inputs and outcomes. For example, suppose a program designer decides to ask extended information instead of basic name and address information only, this reduces consumers' perceived utility of the program by .1236. In order to partially compensate for this reduction, the designer could decide to provide immediate tangible rewards as opposed to no rewards at all, resulting in a utility increase of .1058.

A second important observation is that “participation costs” and “program benefits” drive a consumer’s choice to participate in a loyalty program for almost 70%. The remaining six attributes seem to be only of minor importance as determinants of consumer participation to a program. For example, as opposed to what we would expect, consumers do not seem to be sensitive to the number of program providers associated to the program. Therefore, program designers should dedicate particular attention to both main attributes when trying to maximize consumer participation. Particularly interesting to observe is that consumers do not want to pay in order to be able to participate in the loyalty program. An underlying reason might be that consumers consider the loyalty program as a token of appreciation for their patronage to the provider and, as a result, not something they should pay for.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

A first limitation of the study is its *single focus* on participation to a loyalty program to the neglect of its actual use and its contribution to increased customer loyalty. Consequently, our results should only be interpreted from this perspective. Future research could explore whether the attributes we investigated have an impact on usage level and customer loyalty. Second, our study was not restricted to one particular industry, potentially limiting its *internal validity*. A potential fruitful avenue of future research is to assess whether industry conditions impact the results. Third, inherent to the use of conjoint analysis, respondents were confronted with imaginary and *artificial descriptions* of customer loyalty programs, which might have affected the scores reported. Finally, in order to reduce the number of possible combinations, we limited the category of soft benefits to *information only*. More research could be done on the effects of other soft benefits such as the organization of special events, customer privileges, and so on.

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